



## CLASS C REVENUE FAILS REVENUE ADEQUACY TEST

**Class C Road Revenues Fail the Revenue Adequacy Test.** One of the major principles of taxation is maintaining an adequate stream of revenues. Revenues should match the increases in the local economy for which it represents. If revenues do not keep up with local economic growth, policy makers will be forced to come back to the table and raise tax rates, not a politically viable thing to do.

Class C road revenues to Utah's cities did not keep up with Utah's economy or other major revenue sources enacted to provide resources to for state and local governments. Between FY2001 and FY2009 Class C Road Tax revenues to Utah's municipalities increased from \$62.9 million to \$73.5 million, an increase of 16.8%.

If we assume costs to maintain and build new city streets depend on city population growth and the price index for highways and streets construction, then revenues should have grown 76% in the same time frame (Table 1). Class C Road revenue growth of 16.8% also fell short of Utah's economic growth as measured by Gross State Product in the same time period of 62.5%.

| (In millions)  | FY 2001  | FY 2009   | Percent Change |
|--|----------|-----------|----------------|
| <b>Class C Revenue</b> <sup>1</sup>                  | \$62.9   | \$73.5    | 16.8%          |
| <b>Utah Population</b> <sup>2</sup>                  | 1.95     | 2.41      | 23.6%          |
| <b>Highways and Streets<br/>Producer Price Index</b> | 136.5    | 208       | 52.4%          |
| <b>Total Cost Index</b>                              |          |           | 76.0%          |
| <b>Utah Gross State<br/>Product</b>                  | \$67,568 | \$109,777 | 62.5%          |

B&C Road revenues also did not grow as fast as other major revenue sources utilized to pay for state and local services. The 17% growth in Class C Road revenues between FY2001 and FY2009 fell significantly short of the 36% growth in state individual income taxes, 35% growth in local sales taxes and 53% growth in corporate franchise taxes during the same time frame (Table 2).

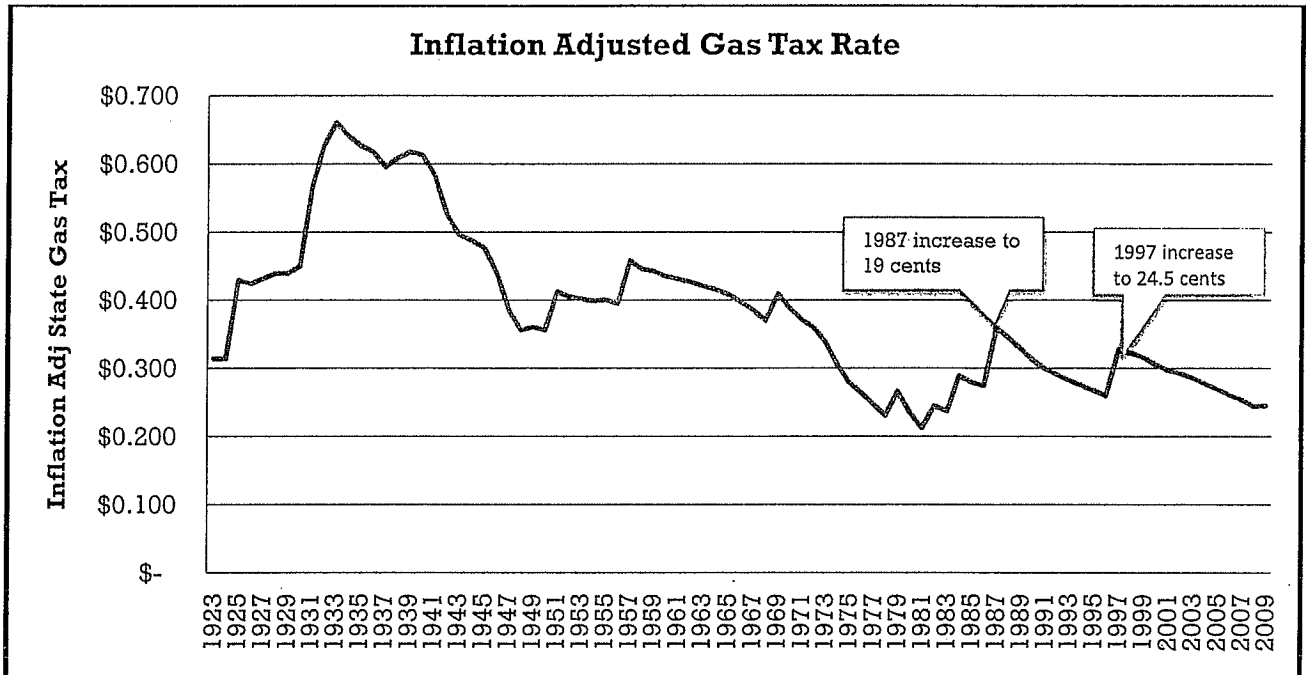
| (In millions)                 | FY2001    | FY 2009   | Percent Change |
|-------------------------------|-----------|-----------|----------------|
| <b>Class C Revenue</b>        | \$62.9    | \$73.5    | 16.8%          |
| <b>Individual Income</b>      | \$1,713.1 | \$2,332.5 | 36%            |
| <b>Local Sales Tax</b>        | \$314.3   | \$425.1   | 35%            |
| <b>Corporate Franchise</b>    | \$179.6   | \$274.9   | 53%            |
| <b>Municipal Property Tax</b> | \$239     | \$346     | 44%            |

<sup>1</sup> Figure represents Class B&C allocation to cities, counties not included

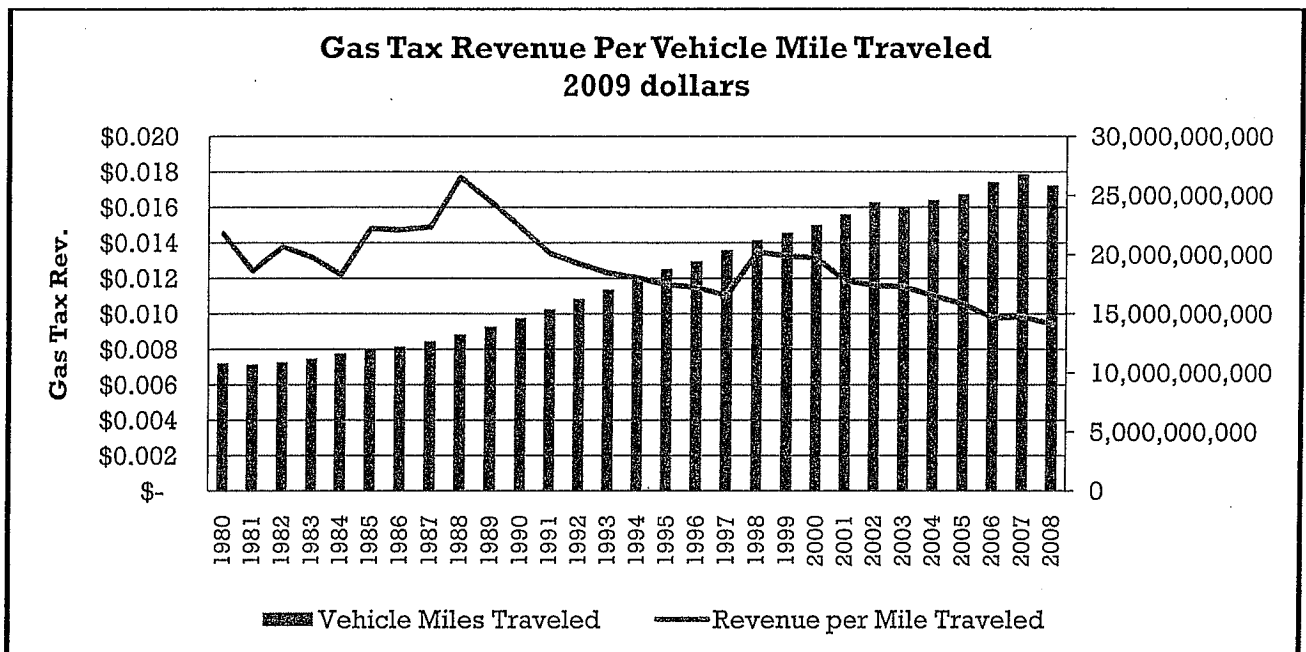
<sup>2</sup> Population number is municipal portion of the state population.

To evaluate the funding adequacy of the motor fuel tax it is important to adjust for inflation. The following charts provide a historical comparison of Utah's gas tax rate and gas tax collections. Utah's current rate is near its lowest level, after controlling for inflation, in the tax's eighty-six year history (see Figure below). However, because of inflation and increased fuel economy the revenue production of the tax has declined over time. Gas tax revenue per mile traveled has dropped 35% from 1980, to its lowest point in the last 30 years.

## Historical comparison of Utah gas tax rate and revenue

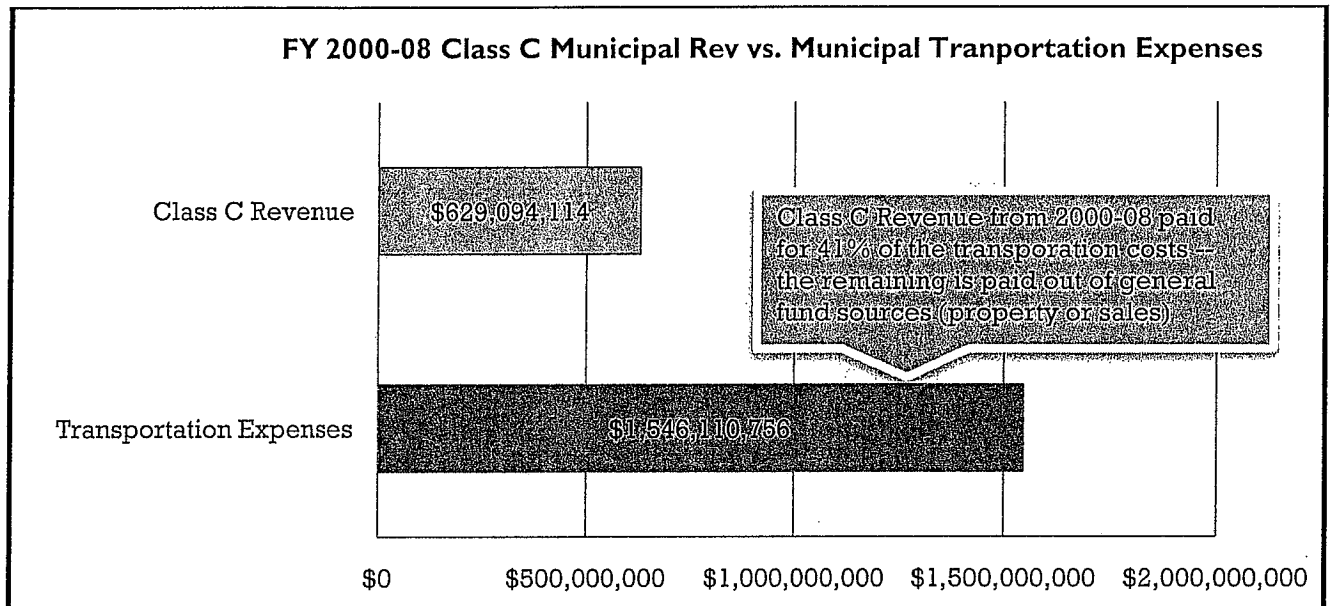


Source: Utah Foundation "Fueling Our Future" (2004), post 2004 analysis ULCT.

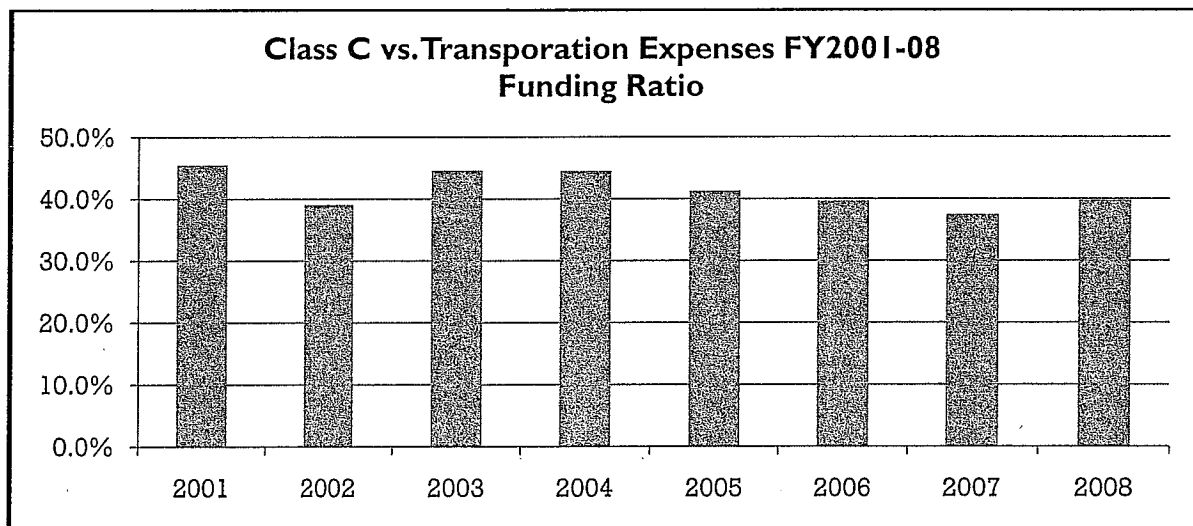


Source: Utah Foundation "Fueling Our Future" (2004), post 2004 analysis ULCT.

# Does Class C revenue cover the cost of municipal transportation expenses?



Source: Utah League of Cities and Towns (ULCT) fiscal database; Utah State Auditor UT-2 form.



Source: ULCT analysis

| Cluster (# of cities) | FY2008 Transportation Expenses | FY2008 Class C Revenue | % of Transportation Exp. Covered |
|-----------------------|--------------------------------|------------------------|----------------------------------|
| Urban Clusters (109)  | \$ 181,880,191                 | \$ 72,797,428          | 39.7%                            |
| Rural Clusters (137)  | \$ 19,051,105                  | \$ 10,544,917          | 55.4%                            |

Source: ULCT finance database; Utah State Auditor UT-2 forms

“Urban” clusters: major population cities, commercial centers, urban edge cities, high income, high growth, and capital city.

“Rural” clusters: resort communities, residential transitioning, natural resource/mining based, old established, traditional agricultural and small towns.